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## DISCUSSION.

MR. ALLEN RIPLEY FOOTE: The report of the committee on "Municipal Accounts and Statistics", in its letter and spirit, is justly entitled to unqualified commendation.

### GENESIS OF THE DEMAND AND WORK DONE FOR UNIFORM ACCOUNTING.

The references contained in this report to the initiations of and work done in behalf of the cause of uniform accounting are exceedingly instructive. Such a record cannot fail to be a source of inspiration and encouragement for those who take only an academic interest in the subject, and of genuine strength for those who are earnestly working to secure the establishment, in every state, of a correct and uniform system of accounting, and the publication of comparative statistics based upon records so kept. All work done for the right gains strength with age. This must be so if good is ultimately to triumph over evil. While ten years is an important period in any person's life, it is not long in the history of a movement like this. We may be satisfied if the rate of progress is slow. Our chief concern should be to make it certain that the movement is always guided in a right direction.

That my own position in regard to this subject may be known and correctly understood, I refer to an incident that occurred ten years ago, in connection with the annual meeting of this Association, held in Washington, D. C., December 26-30, 1890. After Prof. Henry C. Adams had read an admirable paper under the title of

"Statistics as a Means of Correcting Corporate Abuses", I offered the following resolutions:

*"Resolved*, First, that a committee be appointed to designate the divisions of accounts, and the items to be included in each, that should be kept by corporations performing quasi-public services.

*"Resolved*, Second, that said divisions be so made that the effect of each essential economic factor will be shown, to the end that correct statistics may be obtained through a uniform method of accounting as a basis for intelligent economic discussion and legislation."

These resolutions were not discussed for want of time. That I might place them before the members of the Association, with some of my reasons for introducing them, I embodied them in a short paper which I printed in pamphlet form and mailed to every member of the Association under date of January 2nd, 1891. From this pamphlet I take the following extracts:

"It is evident, if the economic advantages obtained by a community through the price paid for a service is to decide the policy of municipal ownership of industries, then those who advocate private ownership must accept the issue on this basis and be ready to show that they can and will perform the same service for the same price that a community pays for it under municipal ownership and administration.

"A condition precedent to the settlement of this question is an agreement on what constitutes cost of service under municipal ownership. It was to establish this agreement that I offered these resolutions Saturday last.

"We must first agree on what items constitute cost, then we must see to it that these items are honestly included in all statements of cost. This done, we are in

position to take intelligent action, and may then award the contract to the municipality or to private enterprise, whichever, in the light of facts so obtained, may appear to be to the best economic advantage of the greater number of people, those who toil and are poor."

Continuing my studies of this subject, I wrote, in 1892, a discussion of the economic principles involved in "The Law of Incorporated Companies Operating under Municipal Franchises."<sup>1</sup> From that discussion I take the following extracts :

"When the public need is to be supplied, the service must be rendered either by the representatives in the name and for the account of the public, or by industrial corporations in the name and for the account of their share and bond holders. Which course shall be pursued is purely a question of public policy. The economic principle involved is that of serving the interests of every individual economically through the service rendered. If this result is gained under the management of a political monopoly more effectually than under the management of an industrial monopoly, then the state is bound, by the sacred trust it represents, to place and keep the management under the administration of the political monopoly ; but if the reverse be true, the duty imposed upon the state demands that it shall place and keep the management under the administration of an industrial monopoly."<sup>2</sup>

"It may be affirmed as a fundamental principle for the guidance of economic legislation that no public need should be supplied under the management of political monopoly that can be supplied with equal economic advan-

<sup>1</sup> Robert Clark Company, Cincinnati, Ohio, Publishers.

<sup>2</sup> Chapter XI, page 63.

tage *to the users of the service* under the management of an industrial monopoly. The best interest of the users of the service is the first object of the protection and care of the state.”<sup>1</sup>

Discussing fundamental conditions for the proper regulation of public service corporations, I stated :

“First. That an industrial corporation organized to supply a perpetual municipal need shall have the exclusive right to supply the need perpetually.

“Second. That all accounts shall be honestly and correctly kept ; that economic thrift shall be insisted upon in every department ; and that charges for the use of services shall bear a fixed relation to the necessary cost of production.”<sup>2</sup>

Referring to the necessity for a uniform system of accounting in this connection, I said :

“An adequate knowledge of the facts cannot be acquired by occasional inquiries by committees of councils or legislatures. That facts may be established, it is necessary that uniform systems of accounting be adopted, that reports be required on fixed dates, covering similar subjects, for the same periods, in the same form. The system must be well devised, continuous, and obligatory as a condition of incorporation.”<sup>3</sup>

I made an effort to bring these propositions into use by drafting several bills for the consideration of the 74th General Assembly, regular session, State of Ohio (1900), under the following titles :

“H. B. No. 861. To provide an efficient civil service for villages and cities.

<sup>1</sup> Chapter XI, page 65.

<sup>2</sup> Chapter XII, page 70.

<sup>3</sup> Chapter XIII, page 87.

"H. B. No. 862. To promote the efficiency of and to provide a uniform system of accounting and reports for village and city governments.

"H. B. No. 863. To prevent deficiencies and to safeguard the interests of taxpayers in the case of villages and cities owning and operating the means of supplying any industrial service.

"H. B. No. 864. To regulate the issuing of bonds by villages and cities for the purpose of acquiring the means of supplying industrial public services by municipal ownership and operation, and to prevent incurring a taxpayers' debt for such purpose.

"H. B. No. 865. To authorize and regulate contracts by and between municipalities and public service corporations."

The full text of these bills, together with a series of articles published over my signature in the *Commercial Tribune*, of Cincinnati, and the *Columbus Citizen*, of Columbus, Ohio, while they were before the legislature, will be found in a pamphlet under the title of "Constitutional Municipal Government".<sup>1</sup>

#### A DANGER THAT MUST BE AVOIDED.

The movement for uniform accounting is now supported by many able and energetic advocates. It has grown with disastrous rapidity during the last three years. Its momentum is cumulative. It will soon be demonstrating its practicability and efficiency by its realized results. In fact it has already done so. During the ten year period covered by this report and discussion, 1890-1900, the state of Wyoming has set an exam-

<sup>1</sup> "Constitutional Municipal Government." Public Policy Publishing Company, Chicago.

ple, and has been reaping the benefits of a uniform system and independent audit for public accounts. It does not become me to describe what has been accomplished in this state, when this has recently been done by the only man who can speak from experience, Mr. Harry B. Henderson, State Examiner for Wyoming, who has devised and administered the system under a ten years' appointment, gave a statement of the benefits realized, in a paper read before the League of American Municipalities at its fourth annual convention, Charleston, S. C., December 12-15, 1900. (This paper will be published in full in *Public Policy* for January 5, 1901.) How the legislature of any state, with his testimony before it, can properly perform its duties to the people without adopting measures designed to establish a uniform system of public accounting and independent audit is incomprehensible to me.

In referring to the growth of the movement to secure uniform systems of accounting, I have used the term "disastrous rapidity" advisedly. Every governmental power is beneficent or harmful in the degree to which it is wisely or unwisely exercised. A uniform system of accounting cannot be beneficent unless it wisely devised or administered. Your committee tells us that "the first principles of accounting are understood by only a few of the men in charge of municipal records." Surely such men are not competent to devise or to audit a uniform system of accounting. Public opinion needs educating, not only to demand that a uniform system of accounting shall be established, but that for its successful establishment and administration the best expert ability obtainable must be employed under conditions that will induce those so employed to make a profession of their vocation, and induce the people to regard them as the

peers of any officer of state. Anything less than this will at some time bring disastrous results. Such a disaster is now impending over the state of Wyoming. It is paying its state examiner a salary of \$2,500 for a service that is saving the taxpayers of the state at least \$100,000 per year. This examiner can easily command \$5,000 per year in private employment. The danger is that he may leave public for private employment. Every person who desires to improve the efficiency of local, state and national governments must use every effort possible to cause the people to understand that "the laborer is worthy of his hire," whether he be publically or privately employed, and that the state has no right to accept a service that involves a pecuniary sacrifice on the part of the person rendering it. The state is as able to pay full value for the service it needs as are private employers. It will do so if it is honest.

A successful system of uniform accounting must be prescribed and administered by men who are capable and honest, whose tenure of office and salary is sufficient to justify them in devoting their lives to the work, and who are as independent of domination by the legislative and executive branches of the government as is the judiciary. I quote again from the discussion of economic principles above referred to :

"To guarantee imparality of administration, the adopted system of accounting and reports should be established as a judicial branch of the government, where it will be least influenced by political or commercial considerations. Those intrusted with the executive work of the system of accounting and reports should be selected for their fitness only. They should not be engaged in any business, nor own an interest in any re-



porting corporation. They should be given long terms of service, and a salary equal to that of the best paid state officials. Under such conditions, real ability can be secured for the service of the state, and exceptional fitness can be acquired by experience.”<sup>1</sup>

#### A NEW DEPARTMENT OF STATE SHOULD BE CREATED.

I wish now to take another step about ten years in advance of public opinion.

The founders of the American republic won undying fame for their wisdom in providing for three independent departments of government, so co-ordinated that neither should be under the domination of any other. To the wisdom of these provisions we to-day ascribe the stability of the nation.

In our day we see the need of a fourth independent department—*a department of statistics and public audit*. This department should be organized similar to the judiciary. Its officers should be appointed or elected in the same manner. They should enjoy the same tenure of office, and receive the same compensation. They should be as independent of domination by the legislative and executive departments as the judiciary. The functions of this department should be to report facts and to prevent waste and frauds, in absolute independence of the political, administrative or commercial exigencies of any party, office holder, or corporation.

#### IN CONCLUSION.

Assuming that it is in order, I move :

First. That the report of the committee be received

<sup>1</sup> Chapter XIII, page 88.

and published in the proceedings of this meeting and that the committee be continued.

Second. In compliance with the request of the committee it is hereby authorized and directed to co-operate in such manner as it may deem expedient, with any or all other organizations, for the attainment of the aims set forth in the above resolutions.<sup>1</sup>

<sup>1</sup> The action proposed had already been taken by the Executive Committee.